

# EVERCORE ISI

Consumer | Global Softlines, Department Stores & Luxury

July 24, 2020

## Carter's, Inc

CRI | \$85.46

In Line | TARGET PRICE: \$80.00

Earnings Report

Warren Cheng

212-653-8979

Warren.Cheng@evercoreisi.com

Justine Gildea

212-446-5602

Justine.Gildea@evercoreISI.com

Omar Saad

212-653-8992

omar.saad@evercoreisi.com

### Company Statistics

Market Capitalization (M) \$4,266  
52-Week Range \$81.54 - \$112.45

### Earnings Summary

		2019	2020E	2021E
EPS	Q1	\$0.88	\$(0.80)A	..
	Q2	\$0.95	\$0.54	..
	Q3	\$1.87	\$1.86	..
	Q4	\$2.81	\$3.09	..
	FY	\$6.48	\$4.70	\$6.75
Revenue (M)	Q1	\$741	\$654A	..
	Q2	\$734	\$515	..
	Q3	\$943	\$934	..
	Q4	\$1,101	\$1,153	..
	FY	\$3,519	\$3,257	\$3,673
EBIT Margin	Q1	8.1%	(4.0)%A	..
	Q2	8.7%	8.0%	..
	Q3	12.2%	11.9%	..
	Q4	14.7%	15.1%	..
	FY	11.4%	9.2%	11.2%

## Accelerating the Omni-channel Transformation

CRI's ability to limit its Retail segment sales decline to just 25% in 2Q, a quarter in which physical stores were closed for 80% of the period, highlights the impressive transformation that the company has quietly achieved over the last five years.

Long dependent on department stores and outlets, we estimate that CRI now generates nearly 2/3 of its earnings from e-commerce, BOPUS, and Exclusive wholesale partnerships (Target, Walmart, and Amazon), which happen to represent the growthiest parts of CRI's business.

First on retail, CRI was able to beat both street and internal expectations with much stronger-than-expected digital and omni-channel demand. Digital sales were up +101%, a feat we consider especially impressive given that CRI's Retail business is already 33% digitally penetrated. Baby clothes have the built-in advantage of having much less need to try-on, and easily replenished online, and we're pleased to see these defensive characteristics prove themselves in 2Q. Additionally, we're pleased that consumers are rapidly adopting CRI's new omni-channel capabilities (just rolled out BOPUS and ship-to-store last year, and curbside pickup this year), which management cited as a key enabler of the company's reduced store footprint outlook (increased its 5-year store closure outlook to 200 stores from 115). With Retail comps having improved to a +3 thus far in July, we're now modeling retail sales to be down just LSD this year (previously -HSD).

Similarly on the wholesale side of the business, we're pleased to see continued solid growth out of the Exclusives programs with Walmart, Target, and Amazon. While CRI's 5-year wholesale sales growth of +1% looks tepid at first glance, we would note that this is really a tale of two stories, with the top five customers growing ~+MSD over this period by our math, and the bankruptcies of SHLD, TOYS, BONT and declining sales to mid-tier department stores largely masking this strength. The good news is, the problematic pieces of the wholesale mix are now greatly reduced (department stores now single digit % of wholesale exposure vs. 25-30% 5-7 years ago), and the Exclusives partners are also proving to be very stable.

We are raising our 2020 EPS estimate to \$4.70 from \$4.00 and our 2021 EPS estimate to \$6.75 from \$6.65 to flow through the 2Q EPS beat and also reflect higher revenue growth assumptions, especially for e-commerce.

Exhibit

11

## CRI Model

INCOME STATEMENT	2014	2015	2016	2017	2018	2019	1Q	2Q	3Q	4Q	2020e	1Q	2Q	3Q	4Q	2021e
<b>Sales</b>	<b>2,894</b>	<b>3,014</b>	<b>3,199</b>	<b>3,400</b>	<b>3,462</b>	<b>3,519</b>	<b>654</b>	<b>515</b>	<b>934</b>	<b>1,153</b>	<b>3,257</b>	<b>753</b>	<b>724</b>	<b>1,007</b>	<b>1,190</b>	<b>3,673</b>
Sales Growth	9.7%	4.1%	6.1%	6.3%	1.8%	1.6%	(11.7%)	(29.9%)	(1.0%)	4.8%	(7.5%)	15.0%	40.5%	7.8%	3.2%	12.8%
US DTC comp (includes ecomm)	4.5%	1.5%	3.1%	2.7%	2.8%	0.4%			1.8%	5.8%	(3.9%)	19.3%	29.0%	9.1%	7.1%	13.7%
US Carter's comp (includes ecomm)	3.7%	1.2%	3.1%													
Cost of Goods Sold	1,710	1,756	1,820	1,916	1,961	2,013	426	279	533	660	1,898	432	403	574	681	2,090
<b>Gross Income</b>	<b>1,183</b>	<b>1,258</b>	<b>1,379</b>	<b>1,485</b>	<b>1,501</b>	<b>1,506</b>	<b>228</b>	<b>236</b>	<b>401</b>	<b>493</b>	<b>1,358</b>	<b>321</b>	<b>320</b>	<b>432</b>	<b>510</b>	<b>1,583</b>
Gross Margin	40.9%	41.7%	43.1%	43.7%	43.4%	42.8%	42.1%	45.7%	42.9%	42.8%	41.7%	42.6%	44.3%	42.9%	42.8%	43.1%
Royalty income	39	44	43	43	39	35	7	4	7	7	25	7	4	7	7	25
yoy	5%	13%	-3%	1%	-10%	-11%	-14%	-63%	-25%	0%	-28%	0%	0%	0%	0%	0%
SG&A Expense	863	901	991	1,084	1,133	1,140	262	198	297	326	1,083	268	267	320	342	1,197
SG&A Growth	6.1%	4.4%	9.9%	9.4%	4.6%	0.6%	(0.1%)	(26.4%)	0.0%	4.4%	(5.0%)	2.5%	34.9%	7.7%	4.7%	10.5%
SG&A Margin	29.8%	29.9%	31.0%	31.9%	32.7%	32.4%	40.0%	38.5%	31.8%	28.3%	33.3%	35.7%	36.9%	31.8%	28.7%	32.6%
<b>EBIT (Operating Income)</b>	<b>359</b>	<b>401</b>	<b>431</b>	<b>444</b>	<b>407</b>	<b>401</b>	<b>(26)</b>	<b>41</b>	<b>111</b>	<b>174</b>	<b>300</b>	<b>60</b>	<b>57</b>	<b>119</b>	<b>175</b>	<b>412</b>
EBIT Margin	12.4%	13.3%	13.5%	13.1%	11.8%	11.4%	(4.0%)	8.0%	11.9%	15.1%	9.2%	8.0%	7.9%	11.9%	14.7%	11.2%
Nonoperating Income - Net																
Interest expense	27	27	26	29	34	37	8	15	15	15	54	15	15	15	15	61
Extraordinary																
Other non-op expense	4	(2)	4	(1)	1	(0)	5	-	-	-	5	-	-	-	-	-
<b>Pretax Income</b>	<b>328</b>	<b>376</b>	<b>401</b>	<b>416</b>	<b>372</b>	<b>364</b>	<b>(39)</b>	<b>26</b>	<b>96</b>	<b>159</b>	<b>242</b>	<b>45</b>	<b>42</b>	<b>104</b>	<b>160</b>	<b>351</b>
Income Taxes	117	133	140	137	76	73	(5)	2	14	24	36	8	7	19	29	63
Tax Rate	35.8%	35.3%	34.8%	32.9%	20.5%	20.0%	12.2%	8.0%	15.0%	15.0%	14.7%	18.0%	18.0%	18.0%	18.0%	18.0%
<b>Consolidated Net Income</b>	<b>211</b>	<b>244</b>	<b>261</b>	<b>279</b>	<b>295</b>	<b>292</b>	<b>(35)</b>	<b>24</b>	<b>82</b>	<b>135</b>	<b>206</b>	<b>37</b>	<b>34</b>	<b>85</b>	<b>131</b>	<b>288</b>
Preferred Dividends	3	2	2	2	2	2	(0)	0	1	1	2	(0)	0	1	1	2
<b>Net Income Available to Common</b>	<b>208</b>	<b>242</b>	<b>259</b>	<b>277</b>	<b>293</b>	<b>290</b>	<b>(35)</b>	<b>23</b>	<b>81</b>	<b>134</b>	<b>204</b>	<b>37</b>	<b>34</b>	<b>85</b>	<b>130</b>	<b>286</b>
<b>Diluted EPS adj</b>	<b>3.92</b>	<b>4.62</b>	<b>5.15</b>	<b>5.76</b>	<b>6.29</b>	<b>6.48</b>	<b>(0.80)</b>	<b>0.54</b>	<b>1.86</b>	<b>3.09</b>	<b>4.70</b>	<b>0.86</b>	<b>0.80</b>	<b>2.01</b>	<b>3.12</b>	<b>6.75</b>
EPS Growth	16.1%	17.7%	11.5%	11.9%	9.2%	3.0%	(190.4%)	(43.5%)	(0.3%)	10.2%	(27.4%)	(207.7%)	48.0%	7.8%	0.9%	43.6%
Diluted Shares Outstanding	53.1	52.3	50.4	48.2	46.7	44.7	43.4	43.3	43.3	43.3	43.3	42.9	42.5	42.1	41.7	42.3
yoy	(7.7%)	(1.4%)	(3.7%)	(4.4%)	(3.1%)	(4.2%)	(4.4%)	(3.8%)	(2.5%)	(1.6%)	(3.1%)	(1.0%)	(1.8%)	(2.8%)	(3.7%)	(2.3%)